

0630 - DFA - Revenue Division

Final Progress Report for the reporting period July 1, 2003 - June 30, 2004

Section I. Agency Update and Assessment

1. Emerging Issues at the Federal (National) or State level affecting the agency.

Current federal legislation H.R. 3220, would require actual physical presence for the taxpayer within the state before state corporate income tax could be imposed. As a result, manufacturers, timer industries, farming businesses and other businesses which have a physical presence will be subject to tax while businesses earning income from sources within the state but having no physical presence would escape taxation. The corporate income tax loss could be as much as \$90 million per year by FY 2007. Recent federal changes to the Soldiers and Sailors Relief Act limit the states ability to include the military income of non resident taxpayers in the gross income used to calculate income tax. Also, this Act limits collection activities, provides automatic filing and payment extensions for military personnel assigned to Combat Status.

2. Status of any new initiatives funded from General Revenue or General Improvement funds in the 2003 Legislative Sessions and other changes made through General Legislation.

3. Discuss significant factors internal and external to the agency affecting agency performance.

The Department is currently the defendant in a lawsuit that challenged state income tax law that prohibited retirees from recovering pre tax costs in employment related annuity distributions. The Department will probably have to pay refunds sometime during the upcoming fiscal year. The trial court has ordered the Department to calculate the refunds without requiring taxpayers to file amended returns. The case is under appeal to the Arkansas Supreme Court.

4. Provide comments on the usefulness and reliability of performance measures.

Performance measures are useful as an early warning of problems, to compare with prior periods to determine trends and to gauge accomplishments.

5. Discuss significant uses of line item flexibility in this report period (agencies operating under Performance-Based Appropriations only).

Section II. Performance Indicators**Program 1: Driver and Motor Vehicle Services**

Goal 1: Promote voluntary compliance with tax and license laws through fair administration, firm enforcement, and prompt and courteous service in a manner that justifies the highest degree of public confidence in our efficiency and integrity.

Objective 1: To ensure accurate collection of state revenues for driver's license fees and motor vehicle fees through the operation of a statewide network of local revenue offices.

<u>Measure Number</u>	<u>Performance Indicators</u>	<u>Annual Target</u>	<u>FY04 Actual</u>	<u>Comments</u>
1	Percentage of driver and motor vehicle transactions processed via internet, mail or telephone	18%	18.7%	
2	Overall accuracy rate for driver and motor vehicle transactions processed in local revenue offices.	84%	84%	
3	Percentage of customers satisfied with driver and motor vehicle services based on a customer satisfaction survey.	98%	98%	

Comments on performance matters related to Objective 1:

Program 1: Driver and Motor Vehicle Services**Goal 2:** Improve operational efficiency.**Objective 1:** To maintain driver records, accident reports, driver license suspensions, insurance verification, and identify and work with problem drivers.

Measure

<u>Number</u>	<u>Performance Indicators</u>	<u>Annual Target</u>	<u>FY04 Actual</u>	<u>Comments</u>
1	Number of driver license transactions processed.	622,160	678,338	
2	Percentage of accident reports recorded in 7 business days after receipt.	95%	89%	
3	Percentage of court actions affecting the status of a driver licensee entered in the data system within 7 business days after receipt.	81%	86%	
4	Percent of drivers involved in accidents complying with financial responsibility requirements.	91%	91%	
5	Percentage of driver control hearings conducted over the telephone.	1%	8%	

Comments on performance matters related to Objective 1:

Program 1: Driver and Motor Vehicle Services**Goal 2:** Improve operational efficiency.**Objective 2:** To maintain tag inventories, renewals, title and registration data for motor vehicles.

Measure		<u>Performance Indicators</u>	<u>Annual Target</u>	<u>FY04 Actual</u>	<u>Comments</u>
<u>Number</u>					
1	Number of motor vehicle transactions processed		2,800,000	2,773,118	The economy resulted in reduced new and used car purchases.

Comments on performance matters related to Objective 2:

Program 2: Taxation Administration

Goal 1: Promote voluntary compliance with tax and license laws through fair administration, firm enforcement, and prompt and courteous service in a manner that justifies the highest degree of public confidence in our efficiency and integrity.

Objective 1: To efficiently administer Arkansas' laws for individual and corporation income taxes.

Measure

Number

	<u>Performance Indicators</u>	<u>Annual Target</u>	<u>FY04 Actual</u>	<u>Comments</u>
1	Number of tax returns processed- Individual Income Tax	1,200,186	1,909,737	1,143,899 Individual and 765,838 Withholding
2	Number of tax returns processed- Corporate Income Tax	31,836	33,550	
3	Percentage of taxes collected voluntarily (as a percent of total revenues collected voluntarily or pursuant to enforcement or audit activities)-Individual Income Tax	99.90%	98.20%	
4	Percentage of taxes collected voluntarily (as a percent of total revenues collected voluntarily or pursuant to enforcement or audit activities)-Corporate Income Tax	97.40%	98.00%	
5	Revenues collected through voluntary tax collections per dollar of tax administration activity - Individual Income Tax	\$304.00	\$301.00	
6	Revenues collected through voluntary tax collections per dollar of tax administration activity-Corporate Income Tax	0	Included in Individual totals	
7	Percentage of returns filed timely- Individual Income Tax	96.30%	96.80%	
8	Percentage of returns filed timely- Corporate Income Tax	95.20%	92.10%	
9	Percentage of returns filed electronically-Individual Income Tax	44%	46.20%	
10	Percentage of returns filed electronically-Corporate Income Tax	0%	0%	
11	Average number of days to process a refund-Individual Income Tax	10.25	15.5	
12	Average number of days to process a refund-Corporate Income Tax	90	90	
13	Overall accuracy rate for return processing-Individual Income Tax	83%	79%	Several major law changes affected the accuracy of returns submitted by taxpayers.
14	Overall accuracy rate for return processing-Corporate Income Tax	79%	84%	

Program 2: Taxation Administration (Continued)

Goal 1: Promote voluntary compliance with tax and license laws through fair administration, firm enforcement, and prompt and courteous service in a manner that justifies the highest degree of public confidence in our efficiency and integrity.

Objective 1: To efficiently administer Arkansas' laws for individual and corporation income taxes.

<u>Measure Number</u> continued	<u>Performance Indicators</u>	<u>Annual Target</u>	<u>FY04 Actual</u>	<u>Comments</u>
15	Number of seminars presented on tax regulations	18	24	
16	Percent of taxpayers satisfied with accessibility, accuracy and timeliness of services based on a Customer Satisfaction Survey-Individual Income Tax	71%	100%	
17	Percent of taxpayers satisfied with accessibility, accuracy and timeliness of services based on a Customer Satisfaction Survey-Corporate Income Tax	76%	100%	

Comments on performance matters related to Objective 1:

Program 2: Taxation Administration

Goal 1: Promote voluntary compliance with tax and license laws through fair administration, firm enforcement, and prompt and courteous service in a manner that justifies the highest degree of public confidence in our efficiency and integrity.

Objective 2: To efficiently administer Arkansas' laws for excise taxes.

<u>Measure Number</u>	<u>Performance Indicators</u>	<u>Annual Target</u>	<u>FY04 Actual</u>	<u>Comments</u>
1	Number of tax returns processed-Excise Tax	688,716	713,877	
2	Percentage of taxes collected voluntarily (as a percent of total revenues collected voluntarily or pursuant to enforcement or audit activities)-Excise Tax	98.4%	98.19%	
3	Revenues collected through voluntary tax collections per dollar of tax administration activity-Excise Tax	\$460.00	\$467.86	
4	Percentage of returns filed timely-Excise Tax	95.0%	92.90%	
5	Percentage of returns filed electronically-Excise Tax	8.8%	15.07%	
6	Average number of days to process a refund-Excise Tax	120	93.94	
7	Overall accuracy rate for return processing-Excise Tax	92%	96.66%	
8	Number of seminars presented on tax regulations	18	14	
9	Percent of taxpayers satisfied with accessibility, accuracy and timeliness of services based on a Customer Satisfaction Survey - Excise Tax	76%	97%	

Comments on performance matters related to Objective 2:

Program 3: Audit and Collections

Goal 1: Promote voluntary compliance with tax and license laws through fair administration, firm enforcement, and prompt and courteous service in a manner that justifies the highest degree of public confidence in our efficiency and integrity.

Objective 1: To maximize revenue collections through enforcement and collection efforts.

<u>Measure Number</u>	<u>Performance Indicators</u>	<u>Annual Target</u>	<u>FY04 Actual</u>	<u>Comments</u>
1	Number of audits completed	2,968	3,011	
2	Percent of amounts assessed in an audit actually collected	62.5%	64%	
3	Percent of taxpayers contacted within 30 days of assignment of case to Collections	87%	87%	See Note #1 Below
4	Percent of insufficient checks collected	76%	96%	See Note #2 Below
5	Additional revenue collected through enforcement and audit activities as compared to the cost of audit and collection activities	\$3.63 to \$1.00	\$3.74 to \$1.00	

Comments on performance matters related to Objective 1:

Note #1 - Correspondence is sent to all accounts once account is received in Collections. Return mail as a result of incorrect account addresses are researched with follow up correspondence sent to taxpayers once updated addresses are located.

Note #2 - This amount represents the total insufficient check accounts that are resolved during the year.

Program 4: Administration and Support Services**Goal 2:** Improve operational efficiency.**Objective 1:** Provide administrative direction and support to insure that department programs meet their objectives and performance targets.

Measure

<u>Number</u>	<u>Performance Indicators</u>	<u>Annual Target</u>	<u>FY04 Actual</u>	<u>Comments</u>
1	Percentage of agency performance objectives and targets met	90%	72%	
2	Percentage of agency staff and budget in the administration program compared to total agency positions and budget (excluding refunds).	<10%	7% Personnel 17% Budget	
3	Number of prior year audit findings repeated in a subsequent audit	1	2	

Comments on performance matters related to Objective 1:

Program 4: Administration and Support Services**Goal 2:** Improve operational efficiency.**Objective 2:** To provide for general operations support not otherwise included in the Administration program or treated as a direct cost in other program.

Measure				
<u>Number</u>	<u>Performance Indicators</u>	<u>Annual Target</u>	<u>FY04 Actual</u>	<u>Comments</u>
1	Average time to deposit or credit revenues to the correct treasury account	<3 days	2 days	
2	Number of days to issue legal opinions requested by taxpayers	85	71	Artificially low due to emphasis on opinions for new services
3	Percentage of administrative hearing decisions issued within 30 days of hearing and/or final submission.	78.6%	80%	

Comments on performance matters related to Objective 2:

Program 4: Administration and Support Services**Goal 3:** Use technology and other resources effectively.**Objective 1:** To effectively utilize information technology to achieve the agency's goals and objectives.

Measure <u>Number</u>	<u>Performance Indicators</u>	<u>Annual Target</u>	<u>FY04 Actual</u>	<u>Comments</u>
1	Agency information technology budget as a percent of total agency budget (excluding refunds).	0%	0%	
2	Number of proprietary information systems maintained by agency staff or maintained through contractual services	12	12	

Comments on performance matters related to Objective 1:

Department reorganization since this strategic plan was developed created a chief information officer for the department. All information technology budget was transferred to this new organization. Information technology performance will be reported in the strategic plan for DFA Management Services.